Mr. T. S. Narayana Ayyar.—I second it.

Mr. President.—The question is that the Cochin Income-tax Regulation Amendment Bill be referred to a Select Committee consisting of the following members:—

1. The Diwan Peishkar.
2. The Deputy President.
3. Mr. Shabdai S. Ider.
4. Mr. P. C. Varkey.
5. Dr. A. R. Menon.
6. Mr. K. M. Kunhi Moideen and
7. The Govt. Advocate & Law Officer.

Motion put and carried.

Mr. President.—The Deputy President will be the Chairman of the committee and the committee will report within three months.

The Cochin Co-operative Land Mortgage Bank Bill.

Mr. K. Narayana Menon.—Sir, I beg to move that the Cochin Co-operative Land Mortgage Bank Bill be read in Council. I do not think that this requires any explanatory remarks from me, as the expert member Rao Bahadur C. Gopala Menon will be explaining some of the outstanding features of the Bill.

Mr. T. S. Narayana Ayyar.—I second it.

Rao Bahadur C. Gopala Menon.—Mr. President, Sir, I trust the Hon'ble members of this house will wish to know how I happened to be here for the purpose of piloting this Bill through the House. When our Diwan came to Madras early in August last he asked Sir M. Ramachandra Rao and myself to come over here to make preliminary enquiries for preparing a scheme for the starting of a Land Mortgage Bank in the State. Being the President of the Madras Central Co-operative Land Mortgage Bank and a great public worker Sir M. Ramachandra Rao readily agreed to the proposal and, being connected with that Bank also agreed to come here. But I may say that on account of the serious illness of Sir M. Rao he was not able to come and I had to come here on two occasions to consult the officers of the State for getting the necessary information for the purpose of drafting the Bill which you have got before the House now.

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The need and the scope for this legislation shall be described in a very few words. You will perhaps know that an Act for the working of Land Mortgage Bank has been passed in several Provinces in India on account of the extreme poverty and indebtedness of the ryots. The Economic Conference which met at Simla last year came to the conclusion that the agricultural indebtedness of India is assuming such intensity that the only solution for that is to redeem the ryots from the clutches of the money lenders and to start Land Mortgage Banks in the different Provinces and to help them by advancing money on long term credit system. Since 1904 after the Co-operative Societies Act was passed, short term credit societies have been started all over India and they have been working for the last 32 years. But when some of these societies started granted long term loans it was considered to be a mistake because the money received by the short term credit societies is only for a short period and it is not therefore desirable to lend these monies for long term credits. On account of that, committees were appointed in different States and different Provinces in India for starting Land Mortgage Banks.—The Baroda Committee, the Burma Committee. In Mysore, in Bombay and in Madras the decision that has been arrived at by the committees for helping the agricultural population to meet their demands is that it should be handled by two different institutions. The decision is that the ordinary co-operative societies should not handle long term money and therefore it was considered necessary to establish Land Mortgage Banks in every Province. I shall explain to you what happened in Mysore. There they did not pass a separate legislation but necessary provisions were included in the Co-operative Societies Act itself to grant long term loans. We are aware that the agricultural population needs money for two different kinds. They want fixed capital and they want circulating capital. Fixed capital is required for the repayment of prior debts and circulating capital is for short periods, for sowing, harvesting and marketing purposes. Thus two different types of money are borrowed by them in two different ways. The Townsend Committee on Co-operation on whose recommendation Land Mortgage Banks are being started in different places expressed the opinion that short term money should be granted to the agriculturists repayable in convenient periods and the long term money should be made payable to the bank from the proceeds of the harvest. May I, Sir, with your permission read out, a few extracts. Writing on this subject a few years ago, Mr. Wolff, the great authority on Co-operation, pointed out the difference between Co-operative

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Societies, and Land Credit institutions in the following words: "I dare say there is room for better organisation for mortgage credit in India, and that will be a great boon to ryots, but it ought to be organized by means of distinct institutions which might very properly be of a Co-operative order. And you can have no linking up of mortgage credit institutions and personal credit institutions for the purpose. Very strong pressure has been brought to bear upon the German Raiffesan Banks who lend their service locally to central mortgage institutions: and it would otherwise have suited their book very well to comply had not the question of responsibility stood in the way. It was plausibly argued that there was nobody better equipped to value properly local property than a local bank, nor to collect repayments. However very wisely the Raiffessa Banks declined with great firmness. Mortgage credit is a question of the security of title, of valuation, and of the power of recovery—you cannot divide the responsibility. It is very well to talk of mortgage bonds being first-rate gilt-edged securities. They may be so. They are in the German Land Schafts. In the United States many mortgages readily granted are found altogether the other way (the farm loan system of America was not in existence when this was written). Provided a strong lending body, it will have to keep matters in its own hands. It must be able to value for itself. Itself will have to dole out the money. It may easily repay itself by a sinking fund as you propose and at a lower rate than that you speak of spreading repayments over longer terms. But the present co-operative banks ought to keep their hands off such business." And it is therefore that separate institutions are necessary for meeting long term loans. That is also the opinion expressed by men who are able to speak with authority on co-operative finance and co-operative banking. That is, short term money should not be handled by long term credit institutions and vice versa. The same decision was arrived at by the Townsend Committee. Not only the Committee recommended that there should be separate institutions, but separate legislation is also necessary. It is therefore that a Bill for the purpose of handling long term credit institutions has been placed before you. Now I shall explain to you the important sections in this Bill.

What are the essential conditions for the success of a Land Mortgage Bank? Three conditions are necessary. The first is the question of recovery of arrears from its members of the payment of annuity due to the bank. Secondly, you should be able to value the lands properly and certain special privileges should also be granted to these banks in the matter of issuing

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debentures. There should be a State control over the bank because the State will have to help in the initial stage by meeting establishment charges and helping them by taking debentures and so on and so forth. The debentures will be issued for a duration of 20 years, and the borrowers can either sell these debentures in the market or get back the money after 20 years or at the time of redemption. The redemption is resorted to only when you have instalment collections not being able to utilise. The idea is that if a borrower comes to the bank for a loan of Rs. 1,000 he is allowed to pay back the amount to the bank in 20 years' time, and unless we get from the public debentures to the extent of Rs. 1000 we cannot work it. The annuity must be collected promptly in order to repay this Rs. 1000 to the debenture holder in due course. One essential thing required is that the net annual income from the land should be at least equal to the amount which the borrower has to pay to the bank. That means the yield from the land of the man who takes a loan of Rs. 1000 must be able to raise at least 200 rupees not only to meet his own expenses, cultivation expenses, etc., but also to have at least Rs. 91 that is the annuity payable for a year for a loan of Rs. 1000/-. This annuity will be worked out when the bank begins operation. He must be able to earn every year Rs. 91, in addition to the amount required for his own private expenses and the expenses of cultivation. That is a very essential thing in order to see that he will be able to pay the instalments regularly to the bank. If you want to make the Land Mortgage Bank scheme a success the annuity should be paid to the bank promptly on the due date. Otherwise it will not be possible for you to pay dividends to the debenture holders on the due date. If the debentures should rank equal with any other security available in the market, it is necessary to make it a success that the principal including interest should be collected on the due date and to enable the bank to pay certain interest to the debenture holders, say, 1st of June and 31st December. Therefore there is this clause inserted in the Bill. There must be some safety for the debenture holders for the money being paid back at the expiry of 20 years. For the first 10 years these debentures are made irredeemable, but there is this proviso, that redemption is resorted to for the purpose of paying principal collections. Suppose a lakh is collected in the way of principal and interest and if it is not possible for the bank to find investments for this lakh of rupees at a rate of interest which will give a yield to pay interest to the debenture holders the only course left for the bank is to redeem these debentures.

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"Such debentures contain a term fixing a period not exceeding ten years from the date of issue during which they shall be irredeemable, or reserving to the Board the right to call in at any time any of the debentures in advance of the date fixed for redemption, after giving to the debenture holders concerned not less than three months' notice, in writing."

Otherwise it will be impossible for us to work the bank successfully. It is necessary that the debenture holders should get interest and in order to do that any instalment collection that the bank gets must be invested properly in order to pay interest and also for the expenses of running the bank.

To look after the interests of the debenture holders, it is provided in this Bill under section 5 the appointment of a trustee and the trustees' powers are also defined there. What we want is speedy recovery of arrears. Such provision is made in all Land Mortgage Banks, not only in India but also in Europe and America. What is further required is to have a proper registration of title and valuation of the property. It will not be possible for the bank to always institute suits against the borrower. In that case we will have to wait for two or three years to recover the amount. The bank cannot wait for an indefinite period like that for recovering the arrears. Therefore we have made provision for recovery by way of summary procedure. The summary procedure is usual in every bank in America and on the Continent. The property of the member can be brought to sale if the annuity is not paid on the due date. In some Continental banks the provision for recovery is stringent, say, in the Silesian Land Mortgage Bank in Silesia they need not give notice at all. If the amount is not paid in time automatically the land passes to the bank. Under the Agricultural Loans Act of 1928 in England the ordinary mortgagee exercises a power of sale if conferred on him by the deed of mortgage. I think that this provision is something like an equitable mortgage that the Presidency Towns have got in India and not in the mofussil. This summary procedure for the recovery of arrears from a defaulting member is essential in order to recover the amount on the due date.

Before dealing with the power of sale of the hypothec, the question of the distraint and the sale of the moveable property of the mortgagor requires consideration. That has been provided for in Chapter III. If the party does not pay the amount on the due date we bring the property under distraint but before taking charge of the property the bank gives enough time to the borrower to pay up the

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money. If that is not done what to do is to take out the land by giving notice and bringing it into sale. These are all provisions brought in the Bill. Why these precautions are necessary is to avoid a third party creating a mortgage on that property.

Now before bringing the property for sale there are several precautions taken in the Bill by which the parties will be given notice. There will be a proclamation and even at the last moment the party has got the right of paying the money and the bank will liberate him from his difficulty. All these are provided to make the borrower pay even at the last moment.

Suppose it happens that the property is brought to sale and it is sold. Although the bank has the power of compulsory administration and sale, the bank has not got the power of handing over the property to the new purchaser. There is provision made for the purchaser to take delivery of the property through the Court. Section 17 clause (2) reads thus:— "Where the property sold is in the occupancy of a tenant or other person entitled to occupy the same and a certificate in respect thereof has been granted under section 16, the Court shall, on the application of the purchaser, and after notice to such tenant or other person order delivery to be made.....". This has been provided to enable the mortgagor to pay the money even at that time. He will have the confidence that he is purchasing from the Court. All these precautions are taken in order to make our debentures a popular and marketable security. Otherwise the public will not have confidence in the issue of debentures.

With regard to registration of title and valuation, it is essential that when the bank advances a loan to borrowers the property is valued properly. In these days of depression the property has gone down in value and we want officers who have got a knowledge of survey and who possess enough information about the locality to assess the property properly. First of all it is assessed by the Supervisor of the bank and then by the sub-Deputy Registrars and eventually it is valued by the Deputy Registrar of Co-operative Societies. All these precautions are taken to arrive correctly at the value of the property at the time of granting the loan. In Madras advance is made only up to 50 per cent of the value of the property. We have to take precaution against any decline in price. Otherwise it will not be possible to protect the bank from any fall in price.

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Another matter of importance is that there should be a record of title. Pattah and encumbrance certificates should be produced. On the Continent and in England there is registration of title and also a registration of deed. There may be hidden rights and if people come forward to the bank with claims the bank is likely to get into difficulty. In France they have the system of what is called 'la Purge'. They advertise in the papers giving 15 days' notice that any man who has got a title must come forward and prove it. And in Australia there is the system called 'the Torrents.' All these precautions are taken to protect the bank from a third party putting forward claims.

The Mortgage Bank should be able to issue debentures, mobilise land value and raise money and the success of a Land Mortgage Bank depends upon the special previleges of the bank and the control of the state over these debentures. Therefore the fundamental feature of the issue of debentures has also been embodied in this Bill.

The Bill which is prepared for the benefit of the rural population in order to redeem them from the clutches of the money-lenders should be considered a very useful piece of legislation and in course of time the agriculturists in the State will be able to obtain loans on the mortgage of their lands for the purpose of redeeming prior indebtedness or for agricultural operations. I must say that in several other provinces it has taken very long time for the banks to come into being. But here with the foresight and great statesmanship of our Diwan he has been able to bring the bank into operation at the earliest date possible. I feel sure that with his advice and guidance the agrarian problems of Cochin will be solved. He may not be here when that time arrives, but he has paved the way for us to achieve that goal.

I may say that the entire indebtedness of India is reported by the Central Banking Inquiry Committee, to be about 700 crores. And in Madras, the Provincial Banking Enquiry Committee, of which I was a member, have estimated the agricultural indebtedness as 150 crores. I understand that in Travancore the rural indebtedness comes to about 20 crores. I do not know what the rural indebtedness in Cochin will be. But it must be at least 6 to 7 crores. I think if the bank functions properly in the course of ten or fifteen years the entire indebtedness of Cochin will be wiped out. For that we require the co-operation of everybody. People must combine together. The very theory underlying co-operation is that the weak and

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the poor must help the weak and the poor and make themselves strong. We poor cannot expect any help from the upper ten. I shall quote Mr. Emerson on this subject "Co-operation will be applied as Emerson has pointed out to make our house keeping sacred and honourable, to raise and inspire us and not to cripple us. Economic co-operation has supplied the modern world with its marvels. If we find that our world is inert, hard, mechanical or soulless, it is only because we do not find active and energetic men behind the machine. There we have the motive power in the shape of millions of lives, lives of men, of women and of children. Utilise this motive power in the form of co-operative ideal to this modern life of ours and it will no longer be a mere machine but a living force of which we will ever be proud. Co-operative idea is great enough for a world created by economic co-operation. Discourage an elaborate private life. Simplicity in the home life leading to a rich staley and noble public life should be the basis of co-operative idea, such was the dream of the wisest and best minds of ancient times".

Therefore what we want is that this co-operative ideal should be applied in every sphere of our activity. There shall not be any competition. Work for our brethren should be the aim and save them from the great trouble in which they are now placed. My experience of the labourers in the four villages of the Mukundapuram Taluk is that they hardly earn 1 anna three pies a day. That is really pitiable. Let us save them from this position by applying the co-operative ideal which will make our home a noble one and we shall be helping the power to lift themselves up from the pitiable position in which they are placed. I have very great pleasure in supporting this motion made by the Registrar of Co-operative Societies for your acceptance.

Mr. T. S. Balarama Ayyar.—If you will permit me I have to clear one doubt from the expert member. I understood the expert member to say that the debtor agriculturist will have to pay within 10 years in 20 instalments the amount borrowed and in fixing the amounts that he has to repay every year the expenses of cultivation and his private expenses will also be taken into account. Has it been investigated whether on the basis of the present price of the agricultural produce there would be anything remaining from the agricultural income after meeting these expenses?

Rao Bahadur C. Gopala Menon.—When a property is examined the entire yield out of it is arrived at, taking the price

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of the commodity on the day of the valuation. We assess the value of the property on the day of valuation. After taking the value of the property we arrive at the gross income. From this it is necessary to provide for the family expenses. If it has got any prior debts we will see whether the amount will be enough to pay off that debt. It is not possible for the Land Mortgage Bank to redeem the entire indebtedness. They are beyond redemption and we are unable to help them. That property must pass into the hands of another man. But there are any number of cases where the property is good enough which by a timely help from the bank may be able to carry on their operations not only making enough provision for them to live but also earning enough for paying the annuity.

Dr. A. R. Menon.—What is the period you purpose.

Rao Bahadur C. Gopala Menon.—At present 20 years. The difficulty in India is to get money for long periods. In England debentures are raised for 4 years. But here capital is so shy. In Madras Central Land Mortgage Bank we find there are several individuals who have invested money there. Institutions have also invested at 3½ per cent interest. Unless we give an attractive interest and period it is very difficult to raise money here. Of course 20 years is a long period, the debentures are to be of 20 years' duration in order to allow the borrower to pay back the money.

Dr. A. R. Menon—I am asking whether it is not too short?

Rao Bahadur C. Gopala Menon.—This period is fixed in order to make the debentures an attractive one. We would consider twice before investing money for 20 years. At least to make the debentures an attractive one, we cannot go beyond 20 years just now.

Mr. P. Raman Menon.—Here is a field yielding 1000 paras of paddy. What is the amount you are going to lend on that?

President.—Those are all matters of detail which they will go into at a later stage. They will advance only 75 per cent of the market value of the property. These are matters which the Directors of the Bank who are all non-officials will have to decide themselves.

Mr. A. V. Moothedan.—I congratulate the Government in their efforts to relieve the agriculturists. But the Bill as

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introduced, will not help the agriculturists heavily indebted. If you insist that such security as provided in the Bill should be given, this will not be of any help to anybody. The problem is most of the agriculturists are immersed in difficulties. A person whose debts amount to Rs. 1,500 and whose properties amount to Rs. 1,000 cannot get relief from the proposed Land Mortgage Bank. Therefore we must have Debt Conciliation Boards which will be able to effect a settlement between the creditor and the debtor, so that the debtors' properties may become sufficient security for the loans advanced by the bank. My suggestion is that the Debt Conciliation Bill should be introduced simultaneously with the Land Mortgage Bank Bill. The Diwan at the Irinjalakuda speech suggested the establishment of Debt Conciliation Boards. But the difference is that he wants these Boards to be created by the villagers themselves; while we want a statutory body. Therefore I suggest the Government may accept one of the private Bills now before the Council.

Mr. T. K. Nayar.—I hope the Bill is being referred to a Select Committee.

Mr. President.—Yes. The Bill has already been passed as an emergency measure in order to avoid delay in the establishment of the bank.

Motion put and carried.

Secretary to the Council.—The title of the Bill is the Cochin Co-operative Land Mortgage Bank Bill.

Mr. K. Narayana Menon.—I move that the Bill be referred to a Select Committee consisting of the following members: the Diwan Peishkar, the Government Advocate, Mr. C. Gopala Menon, Mr. T. K. Nayar, Mr. P. Kumaran Ezhuthassan, Mr. P. J. Alexander, and the Registrar of Co-operative Societies.

Mr. P. Raman Menon.—I suggest the name of Mr. T. S. Balarama Ayyar also.

Dr. A. R. Menon.—I second it.

Motion put and carried.

Mr. President.—The Diwan Peishkar will be the Chairman. The Committee is to report within two months.

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